

Gas Malaysia Berhad

(5209 | GMB MK) Utilities | Gas, Water & Multi-Utilities

Maintain BUY

Covid19 to put temporary pressure on gas off-take

Unchanged Target Price: RM3.11

KEY INVESTMENT HIGHLIGHTS

- **Gas Malaysia's 1QFY20 reported earnings met expectations at RM47.9m**
- **Both revenue and earnings were mainly driven by higher volume of natural gas sold and lower cost of sales**
- **Covid19 will pose temporary pressure on volume sold**
- **Better margins and expansion of new customers will drive growth in FY20**
- **FY20-21F earnings maintained**
- **Maintain BUY with an unchanged TP of RM3.11 per share**

1QFY20 reported earnings grew +16.3%yoy to RM47.9m. Gas Malaysia Berhad's (GMB) reported 1QFY20 earnings came in at RM47.9m. Its reported earning was within our and consensus' full-year FY20 earnings expectations at 24.5% and 26.5% respectively. During the quarter, revenue contracted marginally by -4.3%yoy to RM1,606.2m (from RM1,715.8m in 1QFY19) due to lower average gas tariff recorded during the quarter. Meanwhile, earnings grew by +16.3%yoy primarily driven by: (i) higher volume of natural gas sold during the quarter; (ii) higher finance income and; (iii) lower other cost of sales which include overhead and depreciation, recorded during the quarter. On a sequential quarter basis, revenue declined by -6.4%qoq whilst earnings contracted by -17.4%qoq. This was mainly attributable to lower share of results from joint ventures registered during the quarter.

Covid19 pandemic to put temporary pressure volume growth. With the ongoing fight against the novel coronavirus (Covid19) pandemic is far from being over, we opine that the closure of businesses as a result of the implementation of the movement control order (MCO) by the Malaysian government since 18th March 2020 will potentially have some impact on GMB's volume growth. This is as it will reduce the gas off-take by the customers as businesses are forced to close which could dampen the volume growth. That said, we opine that this pressure on volume will be temporary in nature as many businesses have resumed operations since mid-April 2020.

New tariff and better margins to cushion impact from Covid19. That said, notwithstanding the current pandemic crisis experienced worldwide, we reiterate our view that earnings growth for GMB going forward will mainly be driven by: (i) expansion of existing customers' volume and; (ii) better margins resulting from the recently implemented Third Party Access (TPA) regulation. Management also guided that FY20F will see growth coming in partially from the increase in volume of gas sold in-line with its recently acquired customers. We also note that, growth in the gas sales volume will continue to be driven primarily by rubber, oleo-chemical, consumer products and glass manufacturing industries.

RETURN STATISTICS

Price @ 14 th May 2020 (RM)	2.77
Expected share price return (%)	+12.3
Expected dividend yield (%)	+3.6
Expected total return (%)	+15.9

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.36	-0.32
3 months	6.54	8.19
12 months	-4.15	10.54

KEY STATISTICS


FBM KLCI	1397.25
Syariah compliant	Yes
Issue shares (m)	1284.00
Estimated free float (%)	10.65
Market Capitalisation (RM'm)	3556.68
52-wk price range	RM2.3 - RM2.96
Beta vs FBM KLCI (x)	0.71
Monthly velocity (%)	11.02
Monthly volatility (%)	2.49
3-mth average daily volume (m)	0.23
3-mth average daily value (RM'm)	0.62
Top Shareholders (%)	
Anglo Oriental Annuities Sdn Bhd	30.93
Tokyo Gas- Mitsui & Co Holdings	18.50
Petronas Gas Bhd	14.80

Analyst(s)

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Notably, GMB is also in progress to build more facilities up in the north between Kedah and Perlis which would further increase the gas off take from GMB. This, we opine will ease the impact from the current Covid19 pandemic crisis.

Impact on earnings. We made no changes to our earnings estimate at this juncture as we are expecting Gas Malaysia to meet our FY20F earnings projection. While Covid19 will have some impact on the volume of gas sold to GMB's customers in the 2Q and potentially 3Q as well; our assumption of 4.0% volume growth for FY20 remains for now as some of GMB's customers in the rubber and consumer industries are still doing well and have been operating non-stop during the MCO. We believe there are some increase in off-take of gas coming from companies operating in these industries as high production output were recorded to cater for increase in glove and food demand locally and internationally. This, we opine will cushion the impact from the loss in off-take from other companies that had to close down during the MCO.

Maintain BUY. We are maintaining our **BUY** recommendation on GMB with an unchanged target price of **RM3.11** per share. Our TP valuation is based on Gordon Growth Model with risk-free rate (rfr) assumption of 3.2%, market risk premium of 6.1%, beta of 0.6x and a terminal growth rate of 4%. We remain positive on GMB given that: (i) Well-diverse customer base; (ii) GMB's effort in acquiring new customers and; (iii) growing pressure on manufacturers nationwide on the usage of clean energy such as natural gas in their operations which we opine will assist in pushing up the volume for GMB. Key risks to our earnings outlook and dividend payout are: (i) high capex requirement; (ii) higher future gearing and; (iii) structural changes to the local gas pricing and consumption. 

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2017A	2018A	2019A	2020E	2021F
Revenue	5,348.8	6,233.2	6,886.5	7,309.1	7,805.3
EBIT	253.8	234.8	232.0	265.1	269.3
Pretax Profit	248.2	219.3	220.9	245.2	250.5
Normalised Net Profit	194.6	165.5	172.4	191.3	195.4
EPS (sen)	15.2	12.9	13.4	14.9	15.2
EPS Growth (%)	17.9%	-15.0%	4.1%	11.0%	2.1%
PER (x)	18.2	21.5	20.7	18.6	18.2
Net Dividend (sen)	13.0	9.0	9.6	10.0	11.0
Net Dividend (%)	4.7%	3.2%	3.5%	3.6%	4.0%

Source: Company, MIDFR

GAS MALAYSIA BERHAD: 1QFY20 RESULTS SUMMARY

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly Results				
	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
Revenue	1,715.6	1,678.3	1,606.2	(4.3)	(6.4)
Cost of Sales	(1,648.3)	(1,613.0)	(1,522.3)	(5.6)	(7.6)
Gross Profit	67.3	65.3	83.9	28.6	24.7
Finance income	1.9	1.0	2.4	135.6	27.0
Other operating income	1.2	(0.0)	0.8	(4,531.6)	(28.9)
Admin. expenses	(13.3)	(16.3)	(16.2)	(0.8)	21.2
Selling & distribution expenses	(0.3)	(0.4)	(0.3)	(14.5)	(7.4)
Finance costs	(3.5)	(4.1)	(3.1)	(24.4)	(12.4)
Share of results in JV	1.8	22.7	(0.2)	(101.1)	(113.8)
Profit before zakat & taxation	55.0	68.2	67.4	(1.3)	22.5
Zakat expenses	(0.9)	(0.9)	(0.9)	-	-
Tax expenses	(12.9)	(9.4)	(18.6)	97.3	44.0
Profit after tax	41.2	57.9	47.9	(17.4)	16.3
Non-controlling interests	-	-	-	nm	nm
PATANCI	41.2	57.9	47.9	(17.4)	16.3
Basic EPS (sen)	3.2	4.5	3.7	(17.4)	16.3
DPS (sen)	4.5	0.0	0.0	nm	Nm
				<i>+ / (-) ppts</i>	
Gross Profit Margin (%)	3.9	3.9	5.2	1.3	1.3
Pretax Profit Margin (%)	3.2	4.1	4.2	0.1	1.0
Net Margin (%)	2.4	3.5	3.0	(0.5)	0.6
Tax rate (%)	23.5	13.8	27.6	13.8	4.1
Segmental:					
<i>Revenue:</i>					
Natural Gas & LPG	1,715.6	1,678.3	1,606.2	(4.3)	(6.4)
<i>EBITDA</i>					
Natural Gas & LPG	70.4	64.9	86.3	33.0	22.5

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.